

# IDAHO STATE TRUST LANDS

## *Adventures in living*

Building Billion Dollar Funds to Support Schools, Universities, and Others



## Quick Facts on Idaho's Trust Lands

### Trust Land ownership:

- 2.4 million acres of surface land
- 3.0 million acres of mineral rights

### FY 2010 Revenue was \$48 million from the land

- \$ 28 million earned for public schools
- \$ 20 million earned for Universities & other trusts
- 94% was generated from timber and surface uses

### \$1 BILLION invested in permanent funds

- 15.8% total return on investment of funds FY 2010



Idaho is blessed with millions of acres of land, almost half of which are forested, granted at statehood to support Idaho's public schools, universities, charitable institutions, public buildings, and state mental and correctional facilities. The lands are managed by the Idaho Department of Lands under the direction of the State Board of Land Commissioners which includes the Governor, Secretary of State, Attorney General, State Controller, and State Superintendent of Public Instruction. Day to day management of the lands is led by the Director of the Idaho Department of Lands (IDL).

By far the greatest source of the \$48 million earned in Fiscal Year 2010 came from economic activities related to surface management and leasing. Despite the national down-turn in real estate markets, the IDL was able to generate over \$36 million from timber harvest, which accounted for over 75% of total revenue that year. The second largest revenue source came from leasing land for residential real estate (cottage sites) which made \$5 million. Royalty from mineral extraction generated another \$3 million. Though huge finds of oil and gas have not been made in Idaho, Idaho's revenue from timber continues to generate millions, meaning that long after the oil and gas wells have run dry in other states, Idaho will continue to produce land revenue for schools, universities, and other state institutions. Approximately 10 years ago, a change to the Idaho Constitution created a Land Bank Fund that provides for reinvestment of the proceeds from the sale of land to purchase replacement lands to continue the tradition of supporting public schools and other beneficiary institutions.

The IDL manages, markets, and protects almost one million acres for timber—977,429 acres. Such a large acreage is hard to conceive. The IDL is managing more land for timber than the entire acreage of the state of Rhode Island. IDL has secured funding to implement a Forest Asset Management Plan, which will ensure a perpetually sustainable harvest and increase timber returns over the long term.

Nearly 700 acres of state endowment trust land is leased for residential use around two pristine lakes. The lease fee is set by the Board and will move from 2.5% of land value 4.0% of land value starting in 2012.

Idaho earned almost \$3 million in rent and royalty in

FY 2010 principally from the mining phosphate, sand, gravel and decorative stone. With few homes under construction, the demand for sand, gravel and decorative stone is not expected to pick up in the short-run. The United States is one of four principal nations for phosphate production, which is essential for agriculture as well as acid based chemical polishes, flame retardants, treatment of drinking water, and cleaning solutions. During the last two months of 2009 and all of 2010, the price of phosphate rock rose 700%. China, formerly a major exporter, has now cut off all exports. The IDL charges \$0.25 per ton or the federal rate of 5% of the value of the phosphate rock at the point of sale.

Almost 60% of all of the Idaho trust lands are under lease for grazing and agriculture. The grazing fee is based on forage value, beef cattle prices and other indices, and was \$5.13 in FY 2010. The fee is almost four times that on federal lands. Compared to other western states Idaho's fee is above that of Arizona, New Mexico, Utah and Wyoming, and considerably below the fees charged in the remaining 15 western states. The IDL has worked this year to streamline administrative expenses and grazing lease auction procedures on conflicts applications in an effort to improve program returns and effectiveness.

Revenue from the trust lands in Idaho goes one of three places. All mineral royalties revenue is invested in the respective Permanent Fund of the trust that generated the revenue. All proceeds from land sales are placed in the Land Bank Fund for purchase of replacement lands to generate income. If replacement lands are not purchased within 5 years, the land bank funds are deposited in the Permanent Fund. The principal of the Permanent Fund can never be spent; only the income. Renewable sources of income

#### **TOTAL FY 2010 LAND REVENUE WAS \$48 MILLION FROM:**

Timber Harvest on ~1 million acres	\$ 36,000,000
Residential Real Estate on 696 acres	\$ 5,000,000
Mineral leasing and royalty	\$ 3,000,000
Commercial/Industrial uses on 15,739 acres	\$ 2,000,000
Grazing Leases on 1.8 million acres	\$ 2,000,000
Farming Leases on ~19,000 acres	\$ 330,000
Conservation leasing on 22,000 acres	\$ 55,000



(like timber, grazing and commercial leasing), net of expense, is deposited to an Earnings Reserve Fund along with investment income from the Permanent Fund. After investment expenses are deducted, the State Board of Land Commissioners sets the annual distribution and sends the funds monthly to the public schools and other beneficiaries. The Permanent Funds as of June 30, 2010, totaled just over \$1 BILLION. These funds are prudently invested by the Endowment Fund Investment Board.

Of course, the most serious threat to the Idaho trust land revenue, which is heavily dependent on timber prices, is the current national slump in demand for new single family home construction. The current over-supply in housing stock due to foreclosures impacts both the demand and price for raw material or saw timber used to manufacture lumber.

It would be most helpful to the IDL if changes could be made to the Idaho Constitution to allow the Board to use modern real estate methods to acquire and dispose of lands. Such a change would require action by the legislature and a 'yes' vote by the people. The result of such a change could generate greater returns to the schools and other beneficiaries.



Within the last 12 years, the IDL has invested in other commercial properties that generate greater returns to schools, such as the Garro Office Building (pictured left). The renovation of two commercial office buildings has provided jobs and generated commercial rental income. This income has in turn supported Idaho's public schools, reducing reliance on taxpayers.